

Using Your Income Tax Refund to Save By Buying U.S. Savings Bonds

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1. **If I get a refund on my federal income tax return, can I direct the IRS, on my tax return, to help me save part or all of it by direct deposit?**

Yes, you can. When you file your tax return, you can tell the IRS you want to save part (or all) of your refund and have the rest (if any) sent to your checking account.

You can save part or all of your refund by checking a box when you file your return telling the IRS to make a direct deposit of the amount you designate to an IRA, to buy U.S. savings bonds, or to a savings account or other savings vehicle.

2. If I want to use part or all of my refund to buy U.S. savings bonds, do I need to have previously set up an account with the Treasury Department?

No. The IRS is providing a new, streamlined method to buy U.S. savings bonds using your refund, so that you don't need to open an account in advance with Treasury.

Instead, you can tell the IRS you want to use a specified amount of your refund to buy U.S. savings bonds. Follow the simple instructions on IRS Form 8888, and after you file your tax return (including that form) the IRS will arrange for your U.S. savings bonds to be mailed to you.

3. Is this new? Could a refund previously be used to buy U.S. savings bonds?

Yes, this is new. Starting in early 2010, you will be able to use your refund to buy U.S. savings bonds, even if you don't already have an account with Treasury.

4. What kind of U.S. savings bonds can I buy using this streamlined tax refund method?

Series I U.S. Savings Bonds ("Savings Bonds"). These Series I Savings Bonds are a low-risk, liquid savings product. While you own them, they earn interest and provide protection from inflation.

Although Savings Bonds are not marketable, in the sense that they cannot be bought or sold in a secondary securities market, they can generally be redeemed for principal and accrued earnings at any time after 12 months. (See details below.)

5. What amounts of Savings Bonds can I buy using this streamlined tax refund method?

You can buy Savings Bonds in denominations of \$50, \$100, \$200, \$500, and \$1,000. You buy them at face value, meaning if you pay \$50 (using your refund), you get a \$50 Savings Bond. In any single calendar year, you can buy up to a total of \$5,000 of U.S. savings bonds of any series (whether using your refund or some other method). If you buy \$250 or less of Savings Bonds with your refund, then \$50 Savings Bonds will be issued. If the amount is over \$250, then \$50 Savings Bonds will be issued up to \$250 and the fewest possible additional Savings Bonds will be issued for the remainder amount.

6. Could you give an example of how this would work?

Example: Bill is entitled to a \$2,500 federal income tax refund. He decides to save \$1,000 of the refund by buying Savings Bonds, to save another \$1,000 by having the IRS direct deposit that amount to his IRA, and have the IRS direct deposit the remaining \$500 to his checking account.

Bill gives the IRS these instructions by checking the appropriate boxes and completing the appropriate form attached to his Form 1040. On that form, he gives the IRS the routing and account numbers for his IRA account and checking account. Six \$50 Savings Bonds, one \$200 Savings Bond, and one \$500 Savings Bond will be mailed to him.

7. Although Savings Bonds may generally be redeemed at any time, are there any redemption restrictions or penalties for early redemption?

Savings Bonds are designed as longer-term investments, and generally cannot be redeemed during the first 12 months after you buy them (unless you live in an area affected by a disaster, such as a flood, fire, hurricane, or tornado).

Also, if you redeem a Savings Bond within the first 5 years, the 3 most recent months' interest will be forfeited. After 5 years, no penalty will apply.

8. Will I get actual paper bond certificates?

Yes. Savings Bonds will be issued as paper bond certificates in your name.

9. Can I buy Savings Bonds for my children or grandchildren using this tax refund method?

In the 2010 tax filing season (when you file your taxes for tax year 2009), you can use this streamlined method of using your refund to buy Savings Bonds that will be issued only in your own name or, if you and your spouse file your return as "married filing jointly," in both spouses' names.

Those are your choices for 2010. Beginning in the 2011 tax filing season, the IRS will be able to give you more choices, letting you use your refund to buy Savings Bonds using this streamlined method in the joint names of yourself and a co-owner, such as a child or grandchild.

10. How is interest on Savings Bonds calculated?

The interest rate for Series I Savings Bonds combines two separate rates:

- A fixed rate of return, which remains the same throughout the life of the Savings Bond. The fixed rate of return is based on the average market yields of the benchmark 10-year Treasury inflation-protected marketable security, adjusted for the unique attributes of Savings Bonds, such as the tax deferral feature.
- A variable semiannual inflation rate based on changes in the Consumer Price Index for all Urban Consumers (CPI-U). Treasury's Bureau of the Public Debt announces the rates each May and November. The semiannual inflation rate announced in May is the change between the CPI-U figures from the preceding September and March; the inflation rate announced in November is the change between the CPI-U figures from the preceding March and September.

Interest is credited on the first day of each month, and interest is compounded semiannually based on each Savings Bond's issue date.

11. Are there any limits on how long a Savings Bond accrues interest?

The Savings Bond accrues interest until it's redeemed or, if earlier, until it reaches final maturity in 30 years.

12. Where can Savings Bonds be redeemed?

Savings Bonds can be redeemed at most financial institutions.

13. How are Savings Bonds taxed?

Savings Bond interest is exempt from state and local income tax.

Savings Bond interest is subject to federal income tax; however, taxation can be deferred until redemption, final maturity, or other taxable disposition, whichever occurs first. You also have the option of claiming interest annually for federal income tax purposes.

Savings Bonds are not exempt from any applicable estate, inheritance, gift, or other excise taxes, whether federal or state.

Tax benefits also may be available when redemption amounts are used to pay education expenses.

14. What tax benefits may be available if Savings Bond redemption amounts are used to pay education expenses?

Qualified taxpayers may be able to exclude all or part of the interest earned from eligible Savings Bonds issued after 1989 when paying qualified higher education expenses. Savings Bonds must be issued in the name of a taxpayer age 24 or older at the time of issuance. Other restrictions and income limits apply.

For example, for single taxpayers, the tax exclusion begins to be reduced with a \$67,100 modified adjusted gross income and is eliminated for adjusted gross incomes of \$82,100 and above. For married taxpayers filing jointly, the tax exclusion begins to be reduced with a \$100,650 modified adjusted gross income and is eliminated for adjusted gross incomes of \$130,650 and above. Married couples must file jointly to be eligible for the exclusion.

15. What if a paper Savings Bond is lost, stolen, or destroyed?

The Bureau of the Public Debt (BPD) is authorized to replace lost, stolen, or destroyed Savings Bonds. You can file a claim by writing to: Bureau of the Public Debt, Parkersburg, West Virginia 26106-7012. You will need to complete BPD Form PD F 1048.

You should keep records of your Savings Bond serial numbers, issue dates, and social security or taxpayer identification numbers in a safe place. This information will help speed up the replacement process.

16. What if I want to have a Savings Bond reissued (for example, if I want to add another individual as a co-owner or a beneficiary)?

You can arrange to have a Savings Bond reissued. Under certain circumstances, however, the reissuing will be a taxable event for federal tax purposes and will require the interest earned on the Savings Bonds to be reported as income in the year the reissue occurs.

17. How long will it take to get my Savings Bonds?

Your Savings Bonds are ordered after the IRS completes processing your tax return. Once ordered, it may take up to three weeks for your Savings Bonds to arrive in the mail. If you're having a portion of your refund deposited directly into your bank account, you may receive it before your Savings Bonds arrive by mail.

18. What if there's a mistake on my tax return?

The IRS will be unable to honor your request for Savings Bonds. The IRS Form 8888 instructions will explain the circumstances under which the Savings Bond request won't be honored.

19. Whom do I contact if I don't get my Savings Bonds?

The first step is to check the status of your refund by going to the "Where's My Refund" feature on www.irs.gov or calling 1-800-829-1954. You can generally get information about your refund 72 hours after the IRS acknowledges receipt of your e-filed return, or three to four weeks after mailing a paper return. If the IRS has processed your refund and placed the order for your Savings Bonds, you will need to contact the Treasury Retail Securities Site in Pittsburgh at 1-800-245-2804 to inquire about the status of your Savings Bonds.